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Negotiating new institutional logics: Market access amongst smallholder farmers in Zambia and Malawi

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1. Introduction

The study analyses how processes of institutional change in environments of institutional voids¹ affect smallholder farmer market access in Zambia and Malawi, and explores the role of different dis/enabling institutional agents and logics. We examine this in the context of two divergent routes of institutional change - one externally imposed and the second driven from within the ecosystem itself. We consider how these different institutional processes impact upon smallholder farmers and how they are able to adapt to these changes.

The availability and affordability of food is a priority for many developing countries and well-functioning agricultural markets can also be utilized as engines for sustainable economic

¹ We park for the moment the contestation over the concept of institutional voids (Seremani & Clegg, 2016; Bothello, Nason & Schnyder, 2019) but return to this later in the paper and explain why we persist with this terminology in this context.

growth and the reduction of poverty. But developing countries often have rural markets fraught with market failures and institutional settings which increase transaction costs and reduce market inclusivity especially for smallholder farmers. Business can be part of the solution or part of the problem in these contexts and our case studies illustrate divergent approaches. In the case of Malawi, we see a foreign institutional logic being imposed by multinational enterprises (MNEs) due to pressures for more sustainable supply chains and the problems that smallholder farmers have with compliance and therefore market participation; whilst in the case of Zambia we see intermediaries trying to transcend institutional voids (or what Mair, Martí, & Ventresca (2012) term as *interfaces* between different institutional orders) by embedding the new institutional logics in local social structures.

Creating business linkages through market inclusivity and making markets work for the poor is important to transform the fortunes of the rural poor where the majority of the world still reside and where effective participation of the poor is hindered by the existence of institutional voids (Mair, Martí, & Ventresca, 2012). We explore the prevalence of such voids and the role that new institutional logics can play both positively or negatively as regards market access for smallholder farmers - focusing on how these new institutional logics arise. These farmers are confronted by significant transaction costs in trying to commercialize operations and to participate in markets and they wield neither sufficient power to influence price nor advantageous market knowledge and thus often self-select out of markets and continue with their subsistence methods of farming (Sartorius & Kirsten, 2007).

The research demonstrates the tension that multiple institutional logics can create especially amongst those most vulnerable. It contributes to our understanding of poverty alleviation in developing regions (Saripalli & Chawan, 2017), on overcoming institutional voids,

market inclusivity and the role of social entrepreneurs and intermediaries (Pärenson, 2011), builds on the perspective of markets as social spaces for economic exchange (Bourdieu, 2005; Zelizer, 1979, 2013), and the development of African management solutions that are cognizant of the importance of embedding business solutions in social realities (Luiz, Ganson, & Wennmann, 2019; Seny Kan, Apitsa, & Adegbite, 2015). By focusing on how new institutional logics emerge we contribute towards our understanding of the impact of embeddedness, or the lack thereof, on institutional processes and institutional change, and how these affect local market actors (Hanekom & Luiz, 2017).

The paper is structured as follows. The literature review presents alternate approaches to markets from a transaction cost, new institutional economics (NIE) perspective and from a social construct perspective. Furthermore, we examine these two strands in the context of multiple institutional logics and how to reconcile these approaches. Section 3 presents the research methodology. This is followed by the findings and discussion of our two case studies and their institutional logics. Section 5 concludes and outlines areas for future research.

2. Literature review

2.1 Institutional voids and logics in rural developing markets

From a new institutional economics perspective (NIE), markets are bundles of institutions that provide a platform for social and economic exchange of goods and services (North, 1990). Markets require good governance but also inclusive political and economic institutions. These institutions play a significant role in regulating transaction costs within markets and this incentivizes the economic actors to participate through productive activities. Weak institutions result in high and unpredictable transaction costs thereby reducing market access and dis-

incentivizing the market actors from future participation (Khanna & Palepu, 1997). In addition to market exclusion, weak institutions result in the formation of institutional voids through ‘empty spaces’ (Mair et al., 2012).

In emerging markets, these institutional voids may affect exchanges at all stages of the supply chain – from the raw material sourcing, to manufacturing, distribution, and the sales and marketing stages (Parmigiani et al., 2015). Khanna and Palepu (1997) identify five categories of institutional voids that affect supply chains in emerging markets, namely product markets voids, labor markets voids, capital market voids, regulatory voids, and contracting voids. The existence and prevalence of these voids depends on the stage of the supply chain at which the market exchanges are taking place. These voids tend to be severe in subsistence markets where formal institutions are often most ineffective and affected by corruption (Khanna & Palepu, 1997). Furthermore, in these environments, informal institutions like traditional rulers often wield influence and are able to formulate their own rules which further compound the unpredictability of the regulatory framework (Parmigiani et al., 2015).

Exchanges in emerging markets are frequently challenged by the difficulty of enforcing formal contracts. Whilst in developed countries, companies rely on strong institutions and formal contracting to protect their resources and technology and thereby maintain a competitive edge, in developing countries because of the high transaction costs and inefficiencies associated with the enforcement of contracts, market actors habitually develop their own set of informal institutions to counter these costs. They thereby develop an alternative institutional logic.

Market players in developing countries learn to improvise and make do with whatever is at hand and engage in entrepreneurial activity through bricolage (Chikweche & Fletcher, 2017; Mair and Marti, 2009). In these extreme settings, bricolage and cultural entrepreneurship are

employed to navigate the voids (Khoury et al., 2016). This often results in economies characterized by informal activities which are supported by informal institutions that rely on relation-based transactions. Whilst this may be effective to an extent, it is limited in that it restricts economic interaction with non-relational actors and prevents large-scale commercialization. In other words, these institutional logics often rely on high levels of intra-community trust but this social capital does not necessarily extend inter-community. Its rationalization, in the Weberian sense, is thereby curtailed.

NIE presents only part of the reality and the logical outcome of this approach is the identification of institutional voids. However, the very notion of institutional voids is contested. The term is seen as being loaded with ethnocentric bias which overlooks ‘the richness and power of informal and non-market institutions in shaping local economic activity’ (Bothello, Nason & Schnyder, 2019: 1). Various approaches have been adopted to try and mitigate this bias including limiting it to ‘formal institutional voids’ or acknowledging institutional plurality and seeing voids as *interfaces* between different institutional orders (Mair et al., 2012: 802). Such analyses see markets as social spaces for economic exchange and as socially constructed (Bourdieu, 2005). This presents an alternative approach to how economic activities are managed and how economic actions emerge and are transformed by our interpersonal relations (Zelizer, 1979, 2013). It also demonstrates the construction of legitimacy in markets in terms of how goods are traded and how narratives are constructed around this (Anteby, 2010).

We draw on the strengths of both approaches. The limitation of focusing on markets as social spaces only is that it may underplay the difficulties that actors face in the formal institutional space. Whilst the NIE perspective may overplay the importance of formal institutions and transaction costs, the alternative may lead to the opposite. There is a danger of seeing institutional

voids as ‘nothingness’ or an institutional vacuum which would imply the inability to sustain economic activity and yet we see thriving markets arise in dusty streets in even the poorest countries. But it would equally be a disservice to underplay how vulnerable large segments of communities are that engage in survivalist type enterprises in these spaces and struggle to connect with formal institutions that may be necessary for scale in the marketplace. We adopt a pragmatist approach that seeks to find solutions to real-world problems (Creswell & Poth, 2018) recognizing how economic actors often have to maneuver between multiple institutional logics of formal and informal contexts and other such dualities in existence in developing countries. We therefore utilize the term ‘institutional voids’ mindful of these limitations and do so with these caveats. We do not mean the term to imply ‘nothingness’.

2.2 Building inclusive markets amid multiple institutional logics

According to Smith et al. (2016), when exogenous and endogenous elements get combined in a given business environment, the business model that results will likely be a dynamic and contextually adapted one. But when institutions are weak resulting in multiple institutional logics then the resulting business models will not necessarily be viable for all actors in the market. The business model could be one where there is mutual benefit for all market actors through co-existence of the logics or could be a model in which a dominant logic held by the powerful actors prevails through fragmentation and repression of other models (Venkataraman et al., 2016).

In developing country markets in which the market players may comprise of powerful MNEs from developed countries versus local smallholder farmers, the logics at play in the market are likely to be in conflict or contradictory. The MNEs will be accustomed to rule-based exchange transactions whereas the local smallholder farmers will be used to relationship-based transactions and other social relations (Graça et al., 2016). To navigate institutional environments that have

conflicting institutional logics with the objective of ensuring market inclusiveness, Mair et al. (2012) and Venkataraman et al. (2016) propose that the distinct logics can be leveraged to create social structures to fill institutional voids and enable market participation by the vulnerable. The suggestion is that the relationship between competing logics can be negotiated to create social structures that can lead to inclusive market participation by the marginalized. The premise for this proposition is the understanding that markets, as platforms for economic exchanges, are primarily social structures guided by formal and informal rules that govern the behavior of market actors (McKague et al., 2015). To develop markets in developing countries, where the formal market institutions are weak, social embedding of the institutional logic is therefore important. Studies in Bangladesh and India show that intermediary organizations can play an important role in bridging the rules of the game that result from multiple logics and can promote social and economic progress for the marginalized through increased market participation (Mair et al., 2012; Venkataraman et al., 2016). But research also cautions that not all intermediary interventions are successful in integrating multiple institutional logics and may even lead to the further exploitation of the vulnerable (Smith et al., 2016). For intermediaries to successfully connect markets and market actors they must build new social structures of markets and this requires them to develop appropriate knowledge skills, to bridge contexts, and to socially embed their interventions (McKague et al., 2015).

Our approach in this paper is that in attempting to alleviate poverty, market interventions succeed only when social structures provide ‘relational context for implementing market based activities’ (Venkataraman et al., 2016) to the extent that these structures enhance the capacity of the market participants in mitigating the institutional voids (Mair et al., 2012). The interplay

between community and market logics is vital in stimulating social structures that seek to mitigate the market exclusion and information asymmetry experienced by smallholder farmers.

We examine this by studying how processes of institutional change affect smallholder farmer market access in Zambia and Malawi, and analyze the role of different dis/enabling institutional agents and logics.

3. Research methodology

A qualitative research approach was employed to research the nature of institutional voids and the impact of institutional change, which subsequently cause market exclusion in developing country rural markets, and methods that could be used to embolden formal market participation for the smallholder farmers. Qualitative research lends itself to an analysis of multiple institutional logics that is based upon the multiple positions of market actors. We adopt a pragmatist epistemological approach that focuses on the practical application of ideas to the real world (Creswell & Poth, 2018). The advantage of a pragmatic approach is its attention to contextualized knowledge. This supports our discussion in the literature review that following either an institutional economics or a social constructivist approach results in a bifurcation of views on the institutional landscape, whilst our approach is to bring the reality on the ground, as experienced by smallholder farmers in these contexts, to the fore.

We use a comparative case study design methodology to explore in-depth the nature of institutions and institutional voids and institutional interventions from multiple perspectives in real life taking into account the context. We focus on two broad cases of smallholder farmers in Zambia and Malawi and we discuss each in turn. Both countries were colonized by the British towards the end of the 19th century and were joined by the British in a single Federation before their dissolution

in 1963. Zambia gained independence the year after and Malawi in 1965. The countries therefore share many common institutional characteristics, history and geography, and climatic conditions. Research demonstrates that the countries inherited similar institutional structures imposed by the British with various institutional indicators following similar trajectories (Fedderke & Garlick, 2012; Lourenço, Gwenhamo, & Fedderke, 2017). Both countries are heavily reliant on the primary sector in terms of their economies and have faced similar conditions of underdevelopment. Whilst lending themselves to a comparative analysis, it does not imply that solutions can be transposed between these contexts.

In Malawi the research was based on a case study of farmers and buyers of burley tobacco who conduct their sales at the Lilongwe selling floors. The research focused on the experience of the farmers and other stakeholders on the introduction of an integrated production system as a means of implementing sustainable supply chain requirements demanded by manufacturers of cigarettes. In addition to the farmers and the buyers, other actors that were deemed relevant to this study were the Tobacco Control Commission, which is a state institution responsible for tobacco industry activities, farmer associations, and the market operators (see Table 1 for a list of respondents).

In Zambia the fieldwork was conducted with AFGRI, a leading South African company with operations in grain commodities and food processing across the African continent. The study focused on Sesheke, a border town in the Western region where the company is involved in assisting rural farmers to access markets. In addition to smallholder farmers and intermediaries, the research population encompassed other economic actors such as government and NGOs within the Zambian context. In Zambia, a total of fifteen respondents participated in this study comprising five private sector intermediaries, six smallholder farmers, three NGOs involved in agriculture and

a farmers' union (see table 1). In Malawi, a total of 10 respondents participated. All interviews lasted between one and three hours. Samples were drawn using purposive sampling which had the benefit that data drawn from such samples was information-rich (Ingham-Broomfield, 2015).

Insert table 1 here

Data for researching the case study was collected through semi-structured questionnaires and interviews that comprised open-ended questions. With the permission from the respondents, the interviews were electronically recorded and transcribed verbatim to come up with the themes necessary for analysis. To ensure an accurate reflection of the interviewees' comments, follow-ups were done to validate the conversations. Analysis of the data proceeded in iterative stages as proposed by Ingham-Broomfield (2015). Familiarity with the data was first sought through repeated listening to the interviews and reviewing of the interview notes. Interview transcription followed from which codes were developed in two stages. Based on the theory, the codes were then categorized between formal and informal navigation strategies, and the reconciliation of institutional logics in the presence of institutional change. The iteration of these processes was critical as it enhanced deep immersion into the data which ensured that the patterns observed were validated and refined.

Research reliability is achieved if the outcomes of the study can be repeated if conducted using the same approach and methodology. For this study, this was enhanced using triangulation where the data was collected from multiple sources and from different categories of actors within our sample. The data collection instrument was standardized ensuring that the same information was sought from all respondents within a sample category whilst allowing for a free flow of conversation to capture the richness of the experience of respondents. To enhance the research credibility the findings were based on interviews with respondents that were directly involved with

the institutions. To enhance dependability the interviews were recorded and transcribed, and a full audit trail was maintained.

4. Research findings and discussion

4.1 Reconciling institutional logics in Malawian smallholder tobacco farming

Malawi is Africa's largest exporter of burley tobacco supplying close to 82% of the burley tobacco exported from the continent. Burley tobacco accounts for over 70% of Malawi's foreign exchange earnings. In addition to burley, the country also produces smaller amounts of flue-cured Virginia and dark fired tobacco (FAO, 2018).

Signifying the importance of tobacco to Malawi's economy, the farming and marketing of tobacco in Malawi is governed by an Act of Parliament. The Tobacco Act establishes the Tobacco Control Commission (TCC) as a statutory body with the mandate to direct activities in the tobacco industry including the formulation and enforcement of related industry regulations.

Growers of tobacco in Malawi are classified into two groups – estate growers and smallholder farmers. The estate growers comprise corporates and individuals operating as businesses entities on vast stretches of land over which they have legal title. However, the large majority of tobacco growers in Malawi fall under the smallholder segment. These are licensed as farmer clubs/groups each of which has a membership of five to 10 members. The farmer clubs operate on scattered patches of land over which they only have traditional claim and no legal title deeds (Malawi tobacco industry, 2016).

Almost 98% of all tobacco produced in Malawi is consumed outside the country with the USA, Europe, and the Middle East being the major export destinations. Connecting the leading cigarette manufacturers such as Phillip Morris International, BAT, and Imperial Tobacco to the

raw leaf tobacco markets are intermediary merchant companies. The main intermediary merchants in the Malawian market are subsidiaries of global multinationals such as Alliance One, Universal Leaf (operating as Limbe Leaf in Malawi) and Premier Tobacco (UK) operating as Premium Tama. Japan Tobacco (JTI), which is a leading cigarette manufacturer, has a direct presence in Malawi's tobacco markets purchasing the raw leaf directly from the farmers. Other merchants include Malawi Leaf which is a part of the AHL Group of companies (Malawi tobacco industry, 2016).

The Tobacco Act stipulates that all marketing of tobacco should be done at licensed markets. All the markets in Malawi - four permanent ones and three satellite markets - are operated by Auction Holdings Limited (AHL), a local company owned by farmers and the government's agricultural marketing board (ADMARC).

Selling of tobacco at the floors takes two formats – the American auction system and the contract/silent marketing system (Malawi tobacco industry, 2016). The American auction system has been the traditional mode of selling tobacco in Malawi. Under this system the objective is to achieve automatic price discovery through open bids. Participation on this market is open to any licensed tobacco grower and buyer.

As a result of international developments in tobacco markets including the growing influence of the anti-tobacco lobby and increased litigation against leading tobacco manufacturers in developed countries, the tobacco industry has tried to improve its image and has pursued the Sustainable Tobacco Program (STP). The STP aims to drive standards in agricultural practices, environmental management, and key social and human rights areas, by stipulating minimum standards for their tobacco leaf suppliers. This outside pressure has worked its way through the supply chain resulting in compulsion all the way down to smallholder farmers. As a result the leading tobacco merchants in Malawi have rolled out an integrated production systems (IPS) to

implement sustainable tobacco production. The implementation of IPS in Malawi has furthered the emergence of contract marketing. Under this system, the merchants contract farmers to produce tobacco under their supervision and guarantee them a market. From the 2015 selling season, contract marketing has become the predominant selling mode of tobacco in Malawi. The TCC has put a directive that 80% of the crop be sold under contract marketing and 20% be sold on the auction market. As we discuss in 4.1.2 the imposition of the STP has changed the institutional dynamics in tobacco farming in Malawi and has affected smallholder farmers particularly adversely as they are the least able to adapt to these new requirements.

4.1.1 Navigating institutional voids in Malawi's tobacco industry

Several institutional voids are apparent in the Malawian tobacco industry as it applies to smallholder farming. We use the institutional voids term not to imply that there is nothing and that market activity is not prevalent but rather to demonstrate how existing institutions reinforce the superiority of largescale farmers and adversely affect smallholdings, limiting their access to formal markets and their potential for scale. Much of the functioning formal institutional system is geared towards large estate growers and their multinational buyers, placing smallholder farmers at a distinct disadvantage. We highlight a few of the key institutional voids faced by smallholder farmers in participating in formal markets.

a) Capital market voids: Tobacco farming is a capital intensive undertaking. All the activities on a tobacco farm from the seed beds, fertilizer application, reaping, curing, baling and transportation, require substantial capital investment. But Malawi's formal financial markets are very thin and largely do not meet the needs of the very poor with only 16% of households having an account at a financial institution. Malawi is among the least developed nations with 71% of the population living below the extreme poverty line of \$1.90 per day (PPP), and the majority of these

poor living in rural areas (World Bank, 2018). The formal financial sector is reluctant to bridge this gap due to the high risk of non-repayment, the lack of collateral, and general capacity constraints related to the lack of physical assets as highlighted by our respondents with reference to smallholder farmers: *'The growers don't have capacity. They went to the bank without collateral and the bank said no to finance them' (M3).*

To deal with capital institutional voids, rural smallholder farmers predominantly make do with what they have in hand, in the form of bricolage. For instance, most smallholder farmers rely on personal savings made from tobacco sale proceeds from one selling season to buy inputs for the subsequent season. Where proceeds from tobacco sales are not adequate, the farmers often turn to selling maize to finance their tobacco farming activities: *'To finance our farming activities we rely on the proceeds from our sales. Even when we get poor prices we ensure that we keep so that we can assist ourselves ... since we also grow maize and we sell the maize to buy fertilizer' (M8).* Farmers also rely on club structures (smallholder farming groups of seven to 10) to dampen the impact of capital voids which provide some insurance through pooling of risk and resources. These farmers therefore rely on interpersonal relationships to shape their economic activity (Zelizer, 2013) but this can only go that far and does not necessarily translate in terms of scale resulting in the peripheralization of these smallholdings.

b) Product market voids: The global nature of the tobacco market and the relatively oligopolistic structure of the large tobacco companies result in buyers seeking to transact with market actors that provide predictability and security and this tends to be the large estate growers resulting in the marginalization of smallholder farmers. Presented with tobacco of equivalent quality, the buyer is likely to procure from a large scale commercial farmer as the decision is driven by the urge to achieve competitive advantage through convenience, saving time, and gaining

efficiency in decision making (Graça et al., 2016): *‘The commercial farmers can easily negotiate price with the buyers. Because of their big consignments and consistency they may get better prices as compared to smallholder farmers because of issues of presentation which the smallholder farmer is not able to do’* (M7).

c) Regulatory voids: The World Bank’s Doing Business report for Malawi ranks the country at 144 out of 189 (World Bank, 2018). We find that the poor country-level ranking in the regulatory environment for Malawi is also reflected in its tobacco industry. Abrupt changes in Malawi’s tobacco regulations started in the early 1990s as a result of the World Bank’s structural adjustment programs which abruptly liberalized the sector and cut government support. Despite revisions to some aspects of the Tobacco Act, regulatory gaps in the industry have become glaring due to the irrelevance of many of the regulations as they have been overtaken by events. Ineffective implementation of existing regulation was also highlighted as a major contributor to the regulatory voids. While the regulations in themselves have shortfalls, the study observed that ineffective implementation exacerbated the gaps in regulation in the industry. Furthermore, participants also highlighted that regulation tended to be more harshly applied to smallholder farmers: *‘But in terms of effecting regulation, I think there is bias towards the large commercial farmers and they tend to be punitive towards the smallholder farmers’* (M5). While powerful market actors can exert influence and pressure (and money) to affect the regulation in their favor, the smallholder farmers in Malawi’s tobacco markets are often resigned to their fate: *‘Usually it’s the smallholder growers that comply with regulation because they are afraid as they don’t have a lot of money. The large growers on the other hand can get away through bribing or corruption’* (M8).

4.1.2 New institutional logics in Malawi’s tobacco industry

Pressure on Malawi's tobacco industry to start implementing sustainability criteria started in 2007 as a result of pressure from the international buyers of tobacco in developed countries. This aligns with worldwide challenges to global supply relationships that span developed and developing countries around sustainability challenges. Whilst companies in developed countries have to contend with new ecological, social, and quality concerns, it has exposed gaps as regards the performance of suppliers from developing countries that often fall short of expectations (Akamp & Müller, 2013). The STP was designed by the international cigarette manufacturing companies and include aspects intended to protect them against the bad publicity of sourcing from unsustainable sources. Thereby they are seeking to improve their image and that of their brands as responsible brands, which take into account social and environmental issues in their entire operations. In Malawi, companies implementing STP are focusing on four pillars - three of which directly relate to farmers – the 'crop pillar' whose objective is to promote good agricultural practices among the farmers, the 'environmental pillar' which has at its core the goal to ensure that farmer activities have the least possible adverse impact on the environment, and the 'people pillar' which focuses on making sure that farmers are adhering to labor rights and emphasizes eliminating the use of child labor.

This introduction into the Malawian tobacco industry has brought about challenges as it has entailed the enforcement of new practices and new institutions necessary to implement the identified sustainability requirements. Smallholder farmers are particularly challenged in the face of these emerging new practices and institutions. STPs are designed and initiated by companies in developed countries and then impose new values and assumptions on the system in developing countries which in effect constitute a new institutional logic (Venkataraman et al., 2016) which is providing an additional set of challenges to smallholder farmers which we discuss below.

a) Emerging contracting voids due to the new institutional logic: The implementation of IPS in Malawi has entailed buying companies recruiting and contracting with farmers with specified sustainability conditions to ensure they have a set of growers who can predictably supply tobacco that meet the requirements set out by the end customers. With a specific grower base, the buyer then engages with the farmers through provision of training and monitoring to ensure that they perform as per the required standards. To protect the investment that the buyer makes through these engagements, the buyers have introduced processes for formal contract agreements along with the IPS. The performance of these contracts in Malawi's tobacco industry has however failed to live up to expectation with vulnerabilities apparent in terms of market access continuing: *'It appears contracting farming is bent on cheating. The cheating is coming in the sense that they tell the farmer to produce tobacco and once the farmer produces the tobacco they just buy what they want and stop ... Up to now there is still a lot of unsold volumes produced by contract farmers that was refused sale on the market'*(M9).

The existing institutional structures in Malawi's tobacco industry have not been able to support these contracts (recall Malawi's position towards the bottom of the doing business indicators). Furthermore whilst the new system is dysfunctional, the previous mode of selling is being challenged by this new institutional logic. The end result is that the smallholder farmers are encountering additional problems in accessing the market, further entrenching their marginalization.

b) Impact of the new institutional logic on capital voids: Under the IPS, buyers initially countered the capital market voids and a lack of accessibility to smallholder farmers by linking their farmers with financial institutions which provide the farmers with loans in the form of inputs. The buyers guarantee the loans and work to ensure maximum recovery of the loans by pledging

the farmers a market and providing the farmers with appropriate agronomic messages. Under the IPS loan recoveries that were previously low have tremendously improved: *'The recovery rates have averaged about 96% which is good and this could be due to the little bit more policing and more consistency on prices paid plus better yields and quality. By providing inputs for the tobacco and the maize, no inputs for the tobacco are diverted for the maize crop which was the case with MRFC loans'* (M2). Despite the potential positive impacts, smallholder farmers have had negative experiences with the buyers insisting that they be provided with loans regardless of whether they need the additional funding or not and whether they have the capacity to service these loans. Having accessed the loans, the majority of the smallholder farmers who are illiterate have been challenged in understanding loan aspects such as interest rates and principal amounts. The disbursement of the loans has also been dogged by corruption. The smallholder farmers are prone to exploitation by the extension workers responsible for recruitment and loan disbursement: *'If someone wants to be on contract they are forced to open an account with the bank identified by the buyer. Issues like interest rates and the advance payments to the bank are not disclosed ... It (IPS) has also brought in corruption as well. Some farmers affiliated to some associations are coaxed by leaf technicians from the buyers to join some associations if they want to get inputs from the buyer motivated by money they have received from the grower associations'* (M7).

c) Impact of the new institutional logic on product market voids: The introduction of IPS has brought additional requirements that have to be fulfilled to meet the customers' requirements. Prior to the introduction of IPS, product requirements comprised of quality alone. As discussed above, sustainability factors now have to be adhered to in the production of tobacco to meet the requirements of most of the international customers (Islam & Stringer, 2018). Sustainability requirements have complicated product specification. Whereas before smallholder farmers could

easily understand the product requirements and the TCC could easily certify the quality by allocating a grade, smallholder farmers are now challenged to understand the sustainability requirements. Certification of these requirements is also a challenge. The introduction of IPS as a new institutional logic has resulted in information asymmetry on the part of the smallholder farmers resulting in product market voids. In attempting to deal with the information asymmetry buyers are employing supplier management activities that are further negatively affecting the smallholder farmer through market exclusion: *'They are controlling us too much - follow these production not these ones. We know tobacco, we feel that some instructions are not necessary and some are confusing'* (M9).

Much of the new processes being undertaken to incorporate the new institutional logic of the STP has been put on creating the formal institutional structures to facilitate the economic exchanges but often at the expense of building the social structure of the market. The focus has been on getting the regulations in place and implementing the technical supporting systems (with questionable success). However as Smith et al. (2016) observed, formal institutions cannot be easily introduced in developing countries and the long delay in enacting a new tobacco industry bill in Malawi testifies to these challenges. The sentiment expressed by one of the buyers who are in fact champions of this new logic confirms how little attention has been paid to building the social side of the market: *'It is also to do with sensitization. Do the growers fully understand what IPS is; do they understand the challenges'* (M4). Central to building the social structure of the market is the creation of relationships that will result in trust and commitment.

Prior to the STP, the Agricultural Research and Extension Trust (ARET) was central to the formulation and dispensation of key messages for the farmers in coordination with farmer associations and government extension workers. The emergence of STP has seen a change in this

arrangement. Dissemination of the key messages plus communication of new technologies is now being done by each individual buyer independent of the other industry stakeholders: *‘We need to harmonize because it is so many new systems being introduced – initiatives, technologies confusing farmers at the end of the day. You find each company has different technology going to the same farmer’* (M1). We also found limited sensitivity to the club structures within which smallholders have been operating for years and through which the farmers coordinate various aspects of their farming activities but still benefit from individual production. In a bid to control volumes, STP programs have ended up allocating capacity to clubs that cannot cater for its individual memberships and added tension to this arrangement.

The new institutional logic of the STP was constructed mindful of demands in developed countries but has undermined traditional institutional logics locally, which were often constructed precisely to assist smallholder farmers, recognizing the failures of formal systems. The new logic is embedded in a system of functioning formal institutions which is not the case in Malawi and has often further marginalized an already marginalized community. This provides some insights into the impact of institutional changes that are imposed from outside, often not recognizing the rich social tapestry of indigenous institutions, and thereby crowding out these alternative institutional spaces. With new environmental and other social pressures emanating from advanced economies, these may often have unintended consequences as new standards are enforced through complex global supply chains.

4.2 The Zambian case: The role of intermediaries in creating new institutional logics

The Zambian smallholder farming sector demonstrates much of the same characteristics of institutional voids as neighboring Malawi. An inability to access finance to fund inputs marginalizes smallholder farmers and prevents them from engaging in commercial farming and

scale; lack of trust between smallholder farmers and market actors restricts market access and raises transaction costs through increased compliance checks; and information asymmetries resulting in inappropriate crop choices and discriminatory pricing practices: *‘The information is completely lacking especially the pricing mechanism; the end side of the market always wants to keep the small-scale farmers blind of the price crops’ (Z8)*. Given the similarities, there is no need to unpack the voids further but rather we focus on a particular intervention in the Zambian case which has attempted to address these voids through intermediaries which have sought to address these voids and connect smallholder farmers to markets and to thereby rewrite the institutional logic applicable to the sector.

AFGRI is a commercial entity that primarily focuses on the provision of implements to farmers at favorable terms. They are currently running the Emerging Farmers Procurement program and in addition to the provision of implements, they also act as an intermediary between farmers and agro-processors of grain by procuring from the farmers and storing in their silos and grain bunkers for the end-users. Their interventions attempt to provide market certainty particularly where they offer fixed price and deferred pricing contracts to end users. The company’s prompt payment for grain using mobile money and other electronic payment platforms has had the effect of increasing the rate of take-up of the company’s products by smallholder farmers. The smallholder farmers are able to access the inputs they desire for their operations against their future harvest. In so doing, AFGRI provides a market for the smallholder farmers while at the same time securing to a certain degree the finance that they would have provided to the farmers. They thus provide both a market for the farmer’s produce and the desired inputs that have rendered farmers incapable of progressing to the next level.

For a period, AFGRI provided in-house finance to smallholder farmers for the purchase of implements. The justification for this was twofold; firstly, this would capacitate the smallholder farmers to be able to farm commercially, and secondly, this would stimulate this sector of the economy so as to provide a basis for its future clients. The strategy was borne out of the small number of commercial farmers that they had on their books. They also bought more grain from smallholder farmers than they did from commercial farmers through this scheme since some of the repayments from the smallholder farmers would be in the form grain: *'We have the key interest in seeing these farmers develop and we have the resources and manpower to grow with the farmers. When basically the farmer buys a small forty-two horsepower tractor for example we can go in with the farmer the next time the farmer gets a hundred horsepower or things like that, so we basically push them to a certain point then let them go; then the guys on the commercial side now start dealing with them'* (Z1). Payment for the finance was through the delivery of grain to their depots after harvest until the debt was fully acquitted. Through their engagement, they were able to capacitate and grow a significant number of smallholder farmers. This innovative approach was, however, fraught with challenges especially in a season where there was drought or the prevalence of disease. While they view it to have been successful they have since handed this program to financial institutions that are more able to deal with this on a bigger scale and to withstand currency fluctuations and other risks for longer.

There is an expectation that when transaction costs are high, small economic units will pool their resources together to better enjoy the economies of scale and lower prices from both the input market and the output market (Markelova et al., 2009). However, smallholder farmers in Zambia have been unable to self-organize without the interventions of intermediaries. Musika is a donor funded NGO with innovations that seek to bring markets closer to the smallholder farmers through

working with private sector actors by fostering mutually beneficial business relationships between the smallholder farmers, the agro-processors, and other corporates. They are guided by the opportunities for scale and sustainability of the smallholder market. While the ultimate clients are the rural poor, Musika's direct clients are the agro-processors and corporates that engage with the smallholder farmers. They act as enablers between the private sector and the smallholder farmer. Not only do they seek to bring the market closer to the farmers but they also seek to capacitate the farmer to be in a stronger bargaining position with the agro-processor especially in as far as cropping decisions and prices are concerned.

Contract farming is another way in which the agro-processors as intermediaries are interfacing with the rural smallholder farmers to provide knowledge and other inputs necessary for farming. Parmalat is an agro-processor that collaborates with smallholder farmers through NGOs that seek to build capacity with cooperatives. These cooperatives operate as viable institutions and they link private off-takers with the smallholder farmers and are able to talk the same business language (Markelova & Mwangi, 2010). They continue supplying even beyond the budget cycle and some of them have been capacitated to a level where they now seek to register as private liability companies. This program offers some graduation where the smallholder farmers pool their resources into cooperatives where the economies of scale may be higher and ultimately into private liability companies and can be viewed as a form of incubation as argued by Dutt et al. (2016): *'I can say our programs are sustainable because of our project; we don't support an individual farmer like one farmer on their own, we believe that the input could only be resolved if the farmers are able to come together and working in the form of a corporate'* (Z7). This facilitation by an outside agent catalyzes the smallholder farmers to collective action and aids in market development to reach a greater number of the poor.

For smallholder farmers to be competitive in the ever changing market place, they may need to organize themselves into effective farmer groups that can challenge the bigger players in quality and quantity (Markelova et al., 2009). Following the cooperative initiatives of the 1980's and the subsequent lull in the 1990's, farmers' groups are again in resurgence and the support of the intermediaries has proven invaluable. Thereby the collective actions of smallholder farmers can assist in penetrating markets which would be impossible for single farmers to do (Markelova & Mwangi, 2010).

The limitation of intermediary interventions, in the presence of large scale institutional voids, is that they struggle with scale. The interventions may be successful in overcoming local constraints but if the institutional voids persist and if the intermediary interventions are not fully codified then once the intermediaries withdraw the danger is that the voids strangle the new institutional 'offshoots' (to use a botanical analogy). Musika's interventions are aimed at enduring beyond their involvement, but it does caution that its programs should ideally be complementary to state interventions that seek to address the underlying causes of the voids themselves.

The pressure for institutional change and innovation in this case has emerged from the socioeconomic and institutional limitations which limit smallholder farmers from accessing formal markets and these changes have attempted to connect the existing institutions (both formal and informal) with the newly created institutional structures. We see new institutional structures attempting to connect with indigenous community structures. By embedding these institutional changes within existing institutions and by recognizing these alternate institutions, smallholder farmers are left less vulnerable to changing institutional logics and may be better able to adapt to these.

5. Conclusion

This study addresses the impact of introducing new institutional logics into an institutional context that is beset with formal institutional voids limiting the access to large-scale markets of smallholder farmers in Malawi and Zambia. We examine the introduction of new institutional logics in both cases and how farmers have been able to adapt to these divergent processes of change.

In Malawi this happened through the Sustainable Tobacco Production Systems which resulted in increased pressure from buyers in developed countries to ensure sustainability in their supply chains. This resulted in multiple and conflicting logics (Mair et al., 2015) through the imposition of a set of new institutional demands based upon requirements in developed countries and the effects on smallholder farmers. We demonstrate that the program has often further marginalized those already marginalized farmers through the displacement of prior institutional logics and informal institutions which had developed to try and connect and develop smallholder farmers with markets. The introduction of these foreign institutions, logics, and requirements have further pressurized weak institutional structures within Malawi. The fact that the institutional logic is not embedded in local realities has hampered the consolidation of the new institutions. Larger, commercial farmers have been more able to adapt to the new logic and requirements whilst pushing smallholder farmers further into the periphery of economic activity. We illustrate how market access can be further reduced through the introduction of new institutional logics in an environment that has existing weak formal institutions and how building the social structure of the market can avert such eventualities. Part of the reason for this comes from the lack of recognition of indigenous institutions and how the imposition of new institutional pressures may weaken these traditional institutions and leave farmers even more vulnerable. Not recognizing that markets are

also social spaces may detrimentally hinder existing interpersonal relations governing economic activity.

In the *Zambian case*, we see a different approach to overcoming institutional voids and increasing market access for smallholder farmers. The pressure for change emerged from within and was not imposed through external pressures of global supply chains. Therefore the institutional reforms could be more mindful of local conditions and could be better embedded in social relations. Through the interventions of intermediaries, smallholder farmers are able to organize themselves into meaningful economic units, capitalizing upon existing cultural understandings of markets and interpersonal relations (Zelizer, 2013), and thereby enhancing market access. The starting point of this intervention is recognizing the social structure of markets and an institutional logic which is embedded in local realities and builds on the social capital between the various stakeholders.

These two cases lend themselves to further developing our theoretical understanding as well as making practical contributions. Firstly, we demonstrate that context matters and that any understanding of institutional structures needs to start from a deep comprehension of the context. Whilst a transaction costs and institutional economics approach may highlight deficiencies within institutions leading to the notion of voids, and a social constructivist approach may emphasize the richness of indigenous institutions, by putting the experience of smallholder farmers first and how they relate to institutions we establish the potential limitations of both approaches and the value of a pragmatic paradigm in these contexts.

Secondly, we develop our understanding of processes of institutional change not only from an institutional economics perspective but also from a social space perspective and that different pressures and incentives driving the change may matter. Economic activity often occurs outside

the understanding of conventional economic theory and not accounting for this can further weaken these institutional settings. As new pressures emerge from advanced economies, the consequence thereof is increasingly going to be the imposition of new standards and requirements on global supply chains. This may create conflicting institutional logics which may undermine traditional structures and community relationships and increase the vulnerability of those already most vulnerable. The opportunity exists for large corporations to work with indigenous structures by partnering with local intermediaries that are cognizant of local settings and can embed changes within these structures. This is especially important in dualistic economies where the adoption of a top-down approach may reinforce existing power dynamics that perpetuate inequality.

Thirdly, the study contributes to the inclusive poverty alleviation literature by developing an understanding of how the poor can be excluded from the market when both the formal and informal market institutions concurrently fail (Luiz, 2006). It demonstrates the problems of contradictory institutional logics between different market actors with different and, at times, conflicting needs. It also contributes to the existing research on making markets more inclusive. Building on the perspective of markets as social spaces for economic exchange, the findings enhance our understanding of processes for the successful construction of sustainable markets. By identifying market supporting institutions as comprising of formal and informal institutions, we show that successful market building initiatives should recognize the social structures of the market whilst at the same time spotting potential limitations and deficiencies that may restrict market access. This opens up the space for new innovative partnerships and hybrid organizational structures which are mindful of these challenges (Dutt et al., 2016; Mair et al., 2015). At the same time we should not underestimate the difficulties of these partnerships working in such a contexts as there is research that shows that these sometimes have limited success (Bitzer & Bijman, 2014).

Lastly, our research highlights the importance of legitimacy in the process of institutional change. This is especially important in the current environment where new institutional logics are increasingly being pushed by multinational enterprises as they impose new standards to conform to their sustainability strategies. This ties into prior work that questions dimensions of legitimacy in new sustainability oriented value chains that argues that global northern-initiated standards aim to gain legitimacy from external, international audiences based upon demand driven chains which creates a legitimacy deficit amongst domestic stakeholders (Schouten & Bitzer, 2015: 182) who see this as the imposition of foreign logics often with colonial undertones. We need to heed the work of Khan et al. (2007: 1055) that points to the often unintended consequences from well-meaning international actors that through their interventions reinforce power asymmetries associated with what they refer to as the ‘darker problematic aspects of seemingly progressive and benign institutional reform.’ They warn against the hegemonic operation of power that reproduce ‘relations of domination’ and is sustained by drawing a ‘velvet curtain’ to mask ‘how these relations are implicated in how institutions lose or gain legitimacy’ and that we need to hear the voices of those who are ‘routinely unheard’ (p. 1074).

The research is limited by the fact that the institutional interventions in both countries are relatively new and therefore any assessment needs to be cognizant of the fact that short versus long run effects may differ, and a longitudinal study on both would provide further insight. Furthermore, the cases demonstrates the need for future research to investigate how new institutional logics need to build on social market structures that recognize the importance of local knowledge acquisition, contextual bridging, and social and material embedding. Another area for future research, is to examine in-depth the impact, both intended and unintended, of the push towards sustainability initiatives in developed countries and how that is manifesting throughout the supply chain and

particularly impacting on smaller players in developing countries. Sustainability should foster greater inclusivity, not further marginalization.

6. References

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Table 1: Participant details in Malawi and Zambia

Malawi Participants		
Participant code	Stakeholder Type	Position
M1	Farmer association	Manager
M2	Buyer	Head of Agronomy
M3	Buyer	Head of Agronomy
M4	Buyer	Head of Agronomy
M5	Market Provider	Manager
M6	Regulator	Regional Manager – Centre
M7	Farmer Association	Manager
M8	Farmer	Club Chairman
M9	Farmer	Club Secretary
M10	Farmer	Owner
Zambian Participants		
Z1	Private Intermediary	Manager
Z2	Private Intermediary	Manager
Z3	Private Intermediary	Manager
Z4	NGO	Managing Director
Z5	NGO	Operations Director
Z6	Farmers Union	Manager
Z7	Private Intermediary	Manager
Z8	NGO	Manager

Z9	Private Agro-Processor	Manager
Z10	Smallholder farmer	Owner
Z11	Smallholder farmer	Owner
Z12	Smallholder farmer	Owner
Z13	Smallholder farmer	Owner
Z14	Smallholder farmer	Owner
Z15	Smallholder farmer	Owner